

# MORTGAGE BANKS

CONSIDERED AS THE MEANS OF

PROVIDING EMPLOYMENT IN IRELAND.

IN A

LETTER TO LORD JOHN RUSSELL,

FROM

C. H. BOWEN, ESQ.

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DUBLIN

JAMES M<sup>o</sup>GLASHAN, 21 D'OLIER-STREET.

MDCCCXLVIII.

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# MORTGAGE BANKS,

ETC., ETC.

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MY LORD,

Before I offer to your consideration the annexed letter, addressed to a public body, called into existence by the simultaneous perception in men occupying various positions in Irish society, of the rapid approach of urgent and general calamity, I feel it incumbent upon me to establish a just claim to your Lordship's attention, and this I shall endeavour to do, by adverting as briefly as I can to the policy proposed to be adopted by your administration in dealing with the first and greatest of those extraordinary difficulties in which the affairs of Ireland are so deeply involved; with reference to this—the destitute condition in which a large portion of the Irish people has been suddenly left by the occurrence of an unforeseen and unavoidable misfortune—it has been pronounced “that the poor of Ireland shall hereafter be permanently supported by the land, and the land alone; it has also been proved and allowed, that this can only be rendered possible by the provision of adequate reproductive employment. The task of providing for three-fourths of the pauperism of the country is the portion of this burden imposed upon the Irish landowners by the existing poor-law. That they cannot perform their task, unless they be aided in the acquirement of the requisite capital by legal enactments, has been virtually admitted by your Lordship, and what I would now endeavour to prove is, that the measures propounded for such purpose, namely the “Land Improve-

ment Act," and the "Sale of Encumbered Estates" and the "Landlord and Tenant" Bills, are neither adequate to enable, nor competent to compel these persons to fulfil the duty imposed upon them by law; that consequently it will be requisite to supply capital by other means; that such means as would afford it to those who must necessarily be entrusted with its application, upon the most equitable terms, and least fettered with injurious restrictions, would be the best; and that such end may be more advantageously attained by some method similar to that employed in Prussia, and described in the annexed letter, than by any other. The sum required in Ireland in 1847, for the purpose of merely keeping in existence that portion of the population who could not obtain subsistence by their labour, amounted to £6,407,212, expended in what may be called "out-door relief," under the acts 9 and 10 Vict. c. 107, and 10 Vict. c. 7, and it was administered to as many as 3,020,712 individuals. That the number which will hereafter require to be supported by additional employment or out-door relief, will be little less, I fear we may but too reasonably conclude. It is true, many perished by famine and by fever, but their ranks are already filled by others reduced to pauperism, and the deduction to be made from the most destitute class on account of emigration, is comparatively small. Of course, it will be said that the cost of provisions has, in the present year, fallen one-half; but, on the other hand, is it to be contemplated that so large a portion of the people can be permanently restricted to such a measure of subsistence as that obtained by them last year? This would be utterly incompatible with any scheme for national improvement. The value of a pound of meal per diem was the average means of living afforded to each individual throughout that period. As the wages of labour, can a less sum than the value of two pounds be allotted hereafter? Should this reasoning be correct, the cost of the extra employment which must

be afforded in this and probably in a few succeeding years, will amount to little less than the before-mentioned sum of £6,407,212. From whence must such extraordinary aid be looked for? I doubt not that, upon turning to the "Digest of Evidence upon the Occupation of Land in Ireland," your lordship will be satisfied that there is little hope of its ever being afforded, if not through the instrumentality of the proprietors of the soil. You will there find it deduced, "that there is an absolute deficiency of capital amongst the farming classes for the profitable cultivation of their lands;" and "that this deficiency is increased by disinclination, particularly amongst the small farmers, to invest on their farms such money capital as they possess." I would here ask your Lordship, has the poor-law proved efficient in counteracting this feeling so difficult to overcome? I think you will learn upon inquiry that it has not, but, on the contrary, has greatly strengthened it. And is there any solid ground for expecting that the proposed "Landlord and Tenant" Bill will be looked upon by the farming classes as holding out a sufficient inducement for an enlarged outlay, in the present unsettled state of rural affairs? So far as we may judge from the reception it has met with at their hands, such a result can hardly be anticipated, be the intrinsic merits of the measure what they may; but on this matter, the opinion of one who appears to enjoy an ample share of official confidence, may perhaps be offered as conclusive. The following words are those of the author of the "Irish Crisis," which appeared in the *Edinburgh Review* of January, 1848:—"The fact is, that the main hope of extrication from the slough of despond in which the small holders of the centre and west of Ireland are at present sunk, is, from the enterprise, and capital, and improved husbandry of the class of owners commonly known by the name of landlords." But the question to which I would more particularly confine myself, is the possibility that the task imposed upon

Irish proprietors can be performed, unless a large measure of assistance be afforded them. The net annual value of their united property, by the poor-law valuation, is £13,187,421; but supposing it to be 17 or 18,000,000, when the vast deduction on account of mortgages, judgment debts, annuities, and other charges <sup>shall</sup> ~~that~~ have been made, what will be the residue available to the present proprietors wherewith to meet their liabilities under the existing law? Supposing rents to be paid, £7,000,000 would, I believe, be a high estimate; but such is far from being the case. Must not, then, such a fund prove utterly insufficient? And what are the sources opened, or proposed to be opened, whence may be drawn the additional capital required to maintain the law? We will see. There is the 1st and 2d Wm. IV. c. 33, the terms of which proved to be so little advantageous, that but three persons availed themselves of its provisions, one of these being the late lord lieutenant of Ireland; the £1,500,000 loan, the whole of which has been appropriated, but of which it is probable that not £1,000,000 can be expended this year; and two other measures in contemplation—the one, “the Landlord and Tenant Bill,” of which I have already spoken; the other, “a Bill to facilitate the Sale of Encumbered Estates.” With regard to the latter, there are two classes upon which the operation of such a measure will require to be distinctly considered—those whose encumbrances would require for their liquidation little less than the entire produce of the sale of their estates, should they be brought into the market at the present moment—and those whose properties are burdened in various proportions averaging one-half. In the case of the first-mentioned parties, any act which does not altogether set aside the present laws affecting real property, will certainly remain inoperative, as it must be expected that every conceivable means of defeating its object will be had recourse to by them, and I may add,

with justice, when the *ex post facto* character of recent legislation, as regards their interest, is fairly allowed. And, in that of the second—I think it will be found that the difficulties inseparable from a sale, and the depreciated value at which it will be possible to effect one, while the circumstances which call for the enactment of this bill remain in force, will be causes amply sufficient to prevent any use being made of its provisions, so long as it can be possibly abstained from; to the obstructions threatened in other quarters, upon the introduction of a similar measure last year, allusion need not here be made, but for the reasons given, I think, “a Sale of Estates Act” can do little service at the present moment, although measures to facilitate the transfer of landed property will hereafter, without doubt, be productive of incalculable benefit to Ireland. That such is the impression upon your Lordship’s mind, I believe I am not wrong in assuming—but will not the creation of a fair market for the seller, be not only a just, but an indispensable preliminary to any attempt to compel the sale of land by its present proprietors? With relation to its fitness to effect this, I would here suggest inquiry into the system of mortgage banks established, partly for such purpose, in Prussia—and, in corroboration of my own opinion on the subject, may quote the words of Mr. Pierce Mahony, a very eminent solicitor, and person of great experience in such questions. In his evidence before Lord Langdale, respecting the registration of deeds, he said, “in short we might by such reform, make *land, and interests in land, a portion of the currency*, and available as a part of the capital of this great empire—until that is accomplished, the price of land will fluctuate greatly; at one period, it will (*as at this moment in Ireland*) *be unsaleable*—whilst, in times of commercial prosperity, it will attain too high a value.” Upon a superficial view of the subject, it may appear that the establishment of mortgage banks would impede the

operation of the Sale of Estates Bill, but upon closer examination, I think it would be found to promise a directly contrary effect; it would lead, in the first instance, to a consolidation of the encumbrances upon estates, which would greatly facilitate the making-clear title, and the arrangement of other preliminaries, tending to enable a seller to make an advantageous bargain. It would not only bring property into the market in the most favourable condition—but, likewise, at the most desirable moment. Should steps not be taken to ensure these results, any measure calculated to compel a simultaneous sale of numerous estates, will surely be attended with ruinous litigation, and most disastrous consequences; hostile feelings will be excited to a degree sufficient to deter capitalists from an attempt to purchase, and to make the sale of land all but impossible—money transactions will all, more or less, be thrown into confusion—and the administration of the poor-law be rendered wholly impracticable. That these anticipations of the evil consequences of a compulsory sale of estates are not exaggerated, it is hardly necessary to attempt the proof, such ample information on the state of real property in Ireland has already been afforded through innumerable channels, not only to your Lordship, but to the public at large. Supposing, however, that there be a difference of opinion as to the probable effects of the bill in question, if unaccompanied by ancillary measures—it will, at least, be conceded that immediate relief can in no degree be hoped for from its operation—while, daily and hourly, it is becoming apparent to every one that the poor-law cannot be maintained, or the people preserved from the deepest destitution, without the most extraordinary exertions be made, and in a great degree, voluntarily made, by the present proprietors of the soil. A large majority of these are willing to do their utmost, to preserve the population, and to save the country—and that they have already made most praise-



worthy efforts to do so, has, in spite of a greater amount of unfounded assertion and inveterate calumny, than was ever before brought to bear upon an individual class, been at length, though tardily, admitted by the British public. Is it not, then, both just and prudent to second the exertions of Irish landlords by every method that reason may sanction? The principle of the "Loan for Improvements Act," is favourably spoken of in every quarter; but its effects cannot be very extensive, and its utility is considerably curtailed by the delays, difficulties, and expenses inseparable from a system of official and centralized administration; whereas the establishment of mortgage banks would furnish capital on advantageous terms, not only for drainage, but for every species of improvement; would save the delay and expenditure above alluded to, and at the *same* time would free the executive from troublesome and responsible business, and the exchequer from demands for loans and advances, which will otherwise be made upon it to an amount as yet not dreamt of. But it is not the case of encumbered estates alone that should now be taken into account. Where rates are soon likely to amount to ten shillings in the pound and upwards, what hope is there for extrication from general insolvency, if capital be not speedily provided for profitable employment? Has any measure been as yet proposed, which offers a prospect of such useful results as those obtained by mortgage banks in Prussia? That this subject is sufficiently important to merit a careful inquiry, the following extract from an article in the *Edinburgh Review*, that will be subsequently referred to, may, I trust, show. "So firmly had these banks taken up their position in the monetary world, in the years 1837-40, that they were all enabled to reduce their rate of interest to  $3\frac{1}{2}$  per cent. The value of their notes had at that period increased to 12,000,000." Notwithstanding this large increase, and the gradual reduction of the interest, the price of these securities (or Pfandbriefe) *has been*

*higher, and subject to less fluctuation* in the European market, than that of almost any state securities. “Of these,  $\frac{5}{7}$  found their way into the hands of capitalists, and the remaining  $\frac{2}{7}$  continued to serve as a very popular currency.” If such have been the results of this measure in Prussia, are its consequences in Ireland likely to prove less beneficial? Is not a larger amount of circulating capital called for here, and would not mortgage notes offer an advantageous temporary investment to all who had money in their hands, at the same time that they would be the means of enlisting numbers in an interested defence of law and order, and of disseminating a wholesome respect for the rights of individual property? As to the great economical question of the basis of currency, I do not mean to entertain it here. What is at this moment taking place in France may alter your Lordship’s estimate of the value of a convertible currency, and prove to the world whether or not the “bulliou theory” could stand an hour of trial, should needs be. It may also suggest what might be the advantage in this country of a currency partly based on land, under circumstances which at present seem (at least to its inhabitants) to be all but inevitable.

There remains one other point to which I would call your Lordship’s attention, before your perusal of the following letter—that is, the great facility for the organisation of the system proposed which the Ordnance Survey, together with Mr. Griffith’s valuation, afford, and the abundant means which exist for providing every requisite security for the property, both interest and capital, which would thus be represented by mortgage notes. Believing at least that your Lordship will see the necessity for doing something, “and that matters cannot remain as they are” in Ireland,

I have the honor to subscribe myself,

My Lord,

Your obedient servant,

CHARLES H. BOWEN.

Dublin, April 6th, 1848.

# PRUSSIAN MORTGAGE BANKS.

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TO THE MEMBERS OF THE IRISH COUNCIL.

GENTLEMEN,—Although a member of your society, I take leave to address you by letter, as being the most convenient manner in which, at the present moment, I can invite your attention to a subject, that, looking at the general condition of property in this country, appears to me to be well worth your consideration, though as yet but casually noticed by the Irish press. It is the means which were adopted by Prussia, when she found herself reduced to a condition in some respects similar to that of Ireland at the present day, to remedy two of these evils by which her difficulties were greatly aggravated, and her restoration to a healthy state effectively impeded: these evils were, a want of sufficient circulating capital, and the embarrassed position of a large proportion of her landed proprietary—similar causes, in a similar manner, are now offering notorious impediments to the improvement of this country.

Of the establishment of mortgage banks, the measure to which Prussia had recourse, a succinct, but correct account was given in an article, published in July last, in the *Edinburgh Review*; but as the original scheme, presented to the king of Prussia, which subsequently led to the formation of these institutions, has not been fully set forth, I shall offer to you, as the best method of promoting the object I have in view, a rough but literal translation of a few pages of Herring's work on "Agrarian Legislation" in Prussia, in which it is transcribed at length. Having treated on other matters affecting the condition of landed property, the author proceeds to say:

"But all this was as little avail, in affording a remedy for the want of money, as it was in promoting the restoration of the ruined estates in the manner expected by the king. To effect this, a merchant named Bühring presented to him the following plan:—

"Shewing, in what manner, and by what means abundance of money and credit can be created throughout the country; and how, in the most secure manner, it can be undertaken, to afford relief to the ruined nobility.

"The true wealth of this country consists in ready money and landed property. The latter is in more than tenfold proportion to the former; and were a part of it only brought into circulation,

in a healthy manner, it would amply suffice to generate credit and prosperity throughout the entire extent of the kingdom. To effect this, it would be necessary to form a general board (General Landschafts Kasse), which (but without compulsion) should institute a valuation, on a settled plan, of all the 'Estates Noble,' enter the same into a registry, and lend to the owners on mortgage, one-half or two-thirds of the full value, wherewith they might pay off their oppressive creditors. These payments would be effected in the following manner :—

"1.—Mortgage-notes (Hypothecken-Coupous, or Pfandbriefe), or whatever it were pleased to call them, would be created, 'payable to bearer,' of the value of 500 or 1000 dollars, and bearing interest at 4 per cent. The interest and capital of the same being guaranteed by the signature of the 'mortgage board,' on the security of the mortgaged estates; with these notes the board would pay over the half, or two-thirds of the value of the estate as might be determined upon.

"2.—The mortgager, as owner of the estate, would pay half-yearly  $4\frac{1}{2}$  per cent. interest to the mortgage board; but the board would only pay 4 per cent., and that yearly, to the holder of the note; with these notes the debtor would pay off his creditors, and this being done under supervision of the board, the old lien on the estate would be cancelled.

"3.—The  $\frac{1}{2}$  per cent., or 1 per cent.,\* would remain available for the liquidation of charges and salaries, and the gross sum remaining over and above from this source, as well as from the use of the half-year's interest, would form a reserved fund, destined to make good accidental losses—such as death of stock, damage by hail, fire, failure of crop, and war; for under such circumstances, the noble would otherwise be rendered unable to meet the interest due, and in that case the estate would be ruined: for security in such case, a valuation should be immediately had, and the loss made good out of this fund—as a matter of course, the damage would be estimated in proportion to the loan, and the full valuation of the estate; finally, in what relates to the valuation, the 'finance principle' (Kammerprinzipien) should be adopted as a basis.

"Should your Majesty be so gracious as to advance a capital for the support of this undertaking, the interest of it might also be devoted to the same purpose. The estate of any one not paying his interest promptly should at once be sold. I would not admit of any administration, for an eternal curse appears to rest upon this course of proceeding.

"4.—It should be provided, that touching feudal estates, the consent of the three persons next in remainder (Lehvettern)

\* T.—An apparent mistake.

should alone be necessary—or, what would be still better, a fee-simple (Lehnstamm) should be established.

“5.—That no arrangement with creditors (Konkurs) be permitted to take place—and that the capital and interest of these notes should remain always unaltered.

“6.—Since, for this great and important undertaking, no ready money would in reality be required, unless at the first start, it might be desirable, that your Majesty should appropriate a fund to this occasion, otherwise the bank, which can easily procure money enough at 3 per cent., might undertake the cashing of these notes, payable to bearer; and, for doing so, draw the 4 per cent. into its own coffer: to prevent this, the bank should be obliged to issue the notes upon demand, against ready money, and the amount of interest due upon them, so long as any of them remained in its hands—otherwise, all the interest would be drawn by the bank, and the country ruined.

“7.—All this paper can be made payable to bearer, and its convertibility into cash insured equally, as in the case of a bank-note—for it is impossible to suppose that sums, too large to be paid in money, will be demanded—and in a short time it will be found that the paper will be sought at a premium, for which reason it were quite unnecessary to inscribe on the note the name of either the mortgager, or the estate.

“This important undertaking could at once be carried into operation, without complicated arrangement, since every one would be at liberty to avail himself of its assistance or not, as he might please, and no guarantee by the state would be requisite. The mortgage board would be guarantee sufficient, and it, with its mortgage property, and facility for obtaining a prompt administration of justice, would be in a position to offer ample security for its liabilities.

“8.—It should be prohibited under the severest penalties, for any one to send these notes out of the kingdom; and also for any foreigner to purchase them, either in his own person, or through the agency of a native, and draw the interest out of the country, under pain of forfeiting the capital—one-half to go to the informer, and the other to the general mortgage board; hence, it would arise, that the foreigner would spend his interest in the country, and the matter would regulate itself, and prove much more beneficial, than if a capital, even at the lowest interest, were negotiated out of the country; whereby, in a certain time, the whole negotiated capital would leave the kingdom in the shape of interest, and afterwards the land itself, in its quality of property, in as much as the entire capital would remain a debt payable out of the country. For example:—In Holland liabilities on land bear only  $2\frac{1}{2}$  per cent. interest, and cannot be immediately converted into money, as these notes can.

“How much more valuable, then, must these notes be which bear 4 per cent. interest, and are changeable at any moment into ready money: would not the Dutch imperceptibly draw away all our notes, and make us the authors of our own ruin?”

“9.—These notes would become current like money, in all trading transactions and purchases, together with the interest due upon them, to the time of transfer. But in order not to occasion loss to the Post,  $1\frac{1}{4}$  per cent., Porto, should be charged, otherwise the Post would be too great a sufferer by the transmission of ready money.

“Should it at any time be desired gradually to withdraw this paper in a safe and effectual manner, which, according to the principles of political economy, should be done, the precaution should first be taken to prohibit the receiving by capitalists more than 4 per cent. interest, on first mortgages on land.

“As soon as, in accordance with this scheme, an abundance of ready money had been created by means of these notes, the rate of interest would naturally fall; the owners of property would have the opportunity to borrow money from capitalists, at 4 per cent. and under; in this way, moreover, no discharge by the general mortgage board would be requisite; they would take mortgage notes—not money; would hand them into the general mortgage board, and thereupon their mortgage would be extinguished; and thus would these notes altogether disappear, and this by the agency of the  $\frac{1}{2}$  per cent., or, still better, the 1 per cent. interest, required by the mortgage board, above that demanded by the private capitalists. It is a sure and incontrovertible axiom that no single measure can be framed, which shall equally benefit every member of the state; that it is no less necessary to guard against over-abundance, than to be careful to provide against deficiency; otherwise ready money shall lose its value, and the words of the proverb be verified: ‘In the end is the purse worth as much as the money.’

“The great end of financial economy, and that which a state must never lose sight of, is to maintain money, land, and manufactures, relatively one to the other, at an equitable and well adjusted value; without this will the best system of management fail, and one and all go to ruin together.

“It might still be said, will those landed proprietors benefit by this scheme, who are already in debt to the amount of  $\frac{1}{4}$ , or more, of the value of the land? From what has already been stated, this will readily appear, that

(a) They will derive from it this benefit, that as money becomes more plenty, their creditors will become less extortionate.

(b) And supposing a Commission of Insolvency to take place, in that case the estates would fetch 20 or 30 per cent. more in the market, when purchasers were aware that they could

procure on loan one-half or two-thirds of the valuation ; whereas at present, under an insolvency valuation, they are depreciated to that extent that often scarcely half the mortgage creditors are paid, whereas, under this plan, on the contrary, even should there not remain a surplus, such an occurrence could never take place.

“ But to devise any scheme that shall be effective for the assistance of those who are over head and ears in debt, without making them a present of money, is a thing impossible. The greater part of the nobles are looked upon as almost ruined, so far as their estates are concerned, upon which in consequence of a want of sufficient stock causing a deficiency of manure, the harvests are from year to year becoming less productive. How, then, is the interest due by them to be paid?—Their lands are being deteriorated and are sinking in value from day to day. The tenants are fallen back upon, who, in case of failure of crop and loss of cattle, ought to receive assistance from their lords, now unable to maintain themselves. From whence, then, in the end shall the aids (*Prästanda*) due by them to the King come?—By the decline of agriculture, a loss accrues, not to the landed proprietor and peasant only, but to the King as well as to the entire state. It were desirable that your Majesty would, at your pleasure, extend this plan to lands occupied by houses, in large towns throughout the country, which might be easily accomplished : by this many hundred law-suits would be put an end to, and such fearful numbers of innocent persons would no longer be made miserable and wholly ruined in their circumstances. This undertaking might be rendered one of the utmost importance, with regard to the prosperity of the entire kingdom, were it to be carried out honestly and with proper care, and in its result would affect an internal arrangement of the state at large, which would go near to surpass the most sanguine expectations.

“ This scheme was not carried into execution, but at a later period gave rise to the establishment of the ‘ District Mortgage Bank’ (*Pfand-Credit Institute*), which was instituted by edict in Silesia, 9th July, 1770, in Brandenburg, 15th June, 1777, Pomerania, 13th March, 1781, East Prussia, 25th September, 1787, and West Prussia, Feb. 22nd, 1797.

“ However, as all these institutions were established wholly at variance with the original plan of Bühring, in omitting the provision of a sinking fund, by means of which they would, without doubt, have proved extremely beneficial, since they would have extinguished themselves after their required aid had been afforded, they accordingly became for the land proprietors nothing more than vast, privileged, and easily available loan banks, encouraging, in every possible way, the incurring of debt. For the landed proprietors had only to make application, the stamp for

preparing the mortgage note being always at hand, and the district officials only awaited the application to grant it with the greatest readiness; they postpone the appointed time for the inquiry of the special commissioners; they calculate the value of the estate; hereupon they prepare the valuation and their mortgage notes, and then there remains nothing further for the proprietors to do, than to take the latter, at what moment, and in what sums he pleases, until his estate has become mortgaged to the 'District Loan Bank,' to the amount of one-half, or at most, two-thirds of the valuation.

"Unquestionably the danger of such a spendthrift institution was perceived by the western provinces of the kingdom, and accordingly they made no use of it."

Gentlemen, as my present purpose is, as I have already stated, merely to draw your attention to the subject matter of this letter, I shall not trouble you with any comments of my own, upon the manner of dealing with it pursued by the Prussian Government, but shall rest satisfied should I succeed in eliciting the opinion of persons better versed in law and political economy than I am, upon the probable result of the adoption of such a measure in Ireland, as well as upon the modification of the Prussian plan, which might be required to render it applicable to the peculiar circumstances of the country, and prevent the abuse of it to which Herring more particularly alludes, but which I omitted to remark, was subsequently rectified in Germany by a recurrence to the principles of the original scheme.

I have the honor to be,

Gentlemen,

Your obedient servant,

C. H. BOWEN.

Dublin, November 22nd, 1847.